

TITONKA
CONSOLIDATED SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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TITONKA CONSOLIDATED SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Allison Anderson	President	2006
Gloria Bartelt	Vice President	2006
Daryl Chapin		2005
Leroy Hoffman		2005
Michael Heyer		2007

(After September, 2005 Election)

Allison Anderson	President	2006
Gloria Bartelt	Vice President	2006
Daryl Chapin		2008
Leroy Hoffman		2008
Lori Miller		2007

SCHOOL OFFICIALS

Randy Collins	Superintendent
Mary Beth Wubben	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Titonka Consolidated School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated School District, Titonka, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2006 on our consideration of Titonka Consolidated School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 thru 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Titonka Consolidated School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein), were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 16, 2006

TITONKA CONSOLIDATED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Titonka Consolidated School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,815,500 in fiscal 2005 to \$1,756,184 in fiscal 2006, while General Fund expenditures increased from \$1,828,341 in fiscal year 2005 to \$1,844,505 in fiscal 2006.
- The increase in General Fund revenues was primarily attributable to a decrease in state appropriations. The increase in expenditures was less than 1%. The General Fund balance decreased by 34% primarily due to the reduction in revenues.
- An increase in interest rates during the past fiscal year resulted in an increase in interest earnings in the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Titonka Consolidated School District

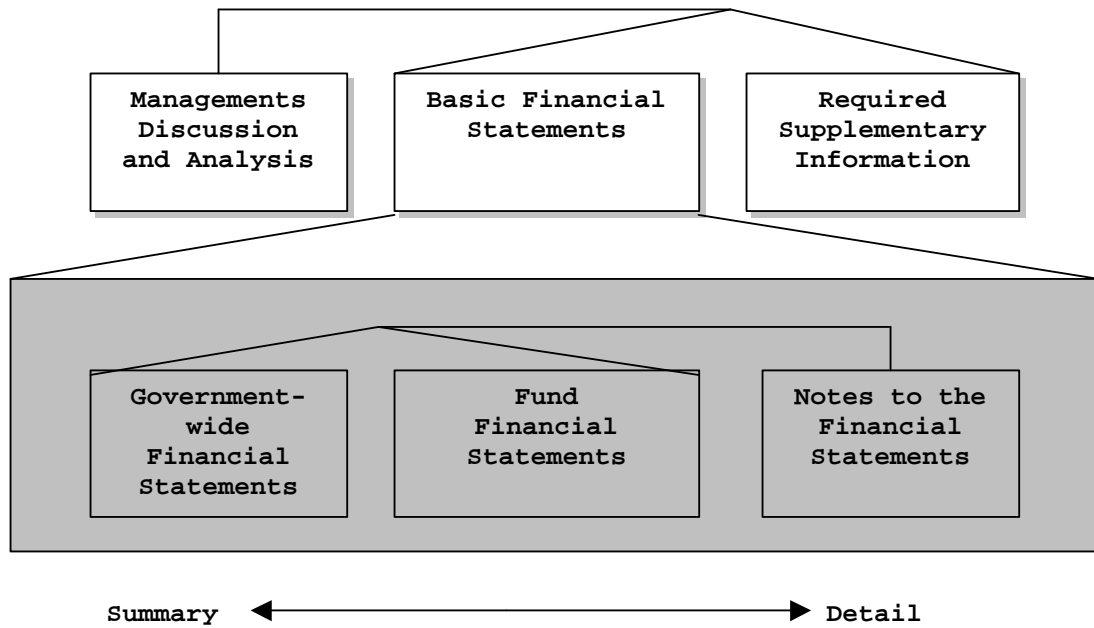


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Net Assets • Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	%
Current assets	1,451	1,427	3	3	1,454	1,430	1.65%
Capital assets	<u>156</u>	<u>203</u>	<u>1</u>	<u>1</u>	<u>157</u>	<u>204</u>	-29.94%
Total assets	<u><u>1,607</u></u>	<u><u>1,630</u></u>	<u><u>4</u></u>	<u><u>4</u></u>	<u><u>1,611</u></u>	<u><u>1,634</u></u>	-1.43%
Current liabilities	819	800	-	2	819	802	2.08%
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
Total liabilities	<u><u>819</u></u>	<u><u>800</u></u>	<u><u>-</u></u>	<u><u>2</u></u>	<u><u>819</u></u>	<u><u>802</u></u>	2.08%
Net Assets							
Invested in capital assets, net of related debt	156	203	3	1	159	204	-28.30%
Restricted	435	375	-	-	435	375	13.79%
Unrestricted	<u>197</u>	<u>252</u>	<u>1</u>	<u>1</u>	<u>198</u>	<u>253</u>	-27.78%
Total net assets	<u><u>788</u></u>	<u><u>830</u></u>	<u><u>4</u></u>	<u><u>2</u></u>	<u><u>792</u></u>	<u><u>832</u></u>	-5.05%

Combined net assets decreased by 5% over the prior year. Restricted assets grew by over 13% primarily as a result of an increase in the Capital Projects Fund of over \$100,000. Unrestricted assets decreased due to a decrease in the General Fund as funds were used to pay for expenditures committed in prior years such as Phase III and Early Intervention monies.

Changes in net assets - figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4						
Change in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total School District	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$	\$	\$
Revenues:						
Program revenues:						
Charges for service and sales	77	164	34	34	111	198
Operating grants, contributions and restricted interest	287	279	47	40	334	319
General revenues:						
Property tax	756	723	-	-	756	723
Income surtax	52	48	-	-	52	48
Local option sales tax	126	125	-	-	126	125
Unrestricted state grants	731	753	-	-	731	753
Unrestricted investment earnings	13	9	-	-	13	9
Other	26	1	-	-	26	1
Total revenues	<u>2,068</u>	<u>2,102</u>	<u>81</u>	<u>74</u>	<u>2,149</u>	<u>2,176</u>
Program expenses:						
Governmental activities:						
Instruction	1,309	1,302	-	-	1,309	1,302
Support Services	660	590	-	-	660	590
Non-instructional programs	13	12	78	73	91	85
Other expenses	128	110	-	-	128	110
Total expenses	<u>2,110</u>	<u>2,014</u>	<u>78</u>	<u>73</u>	<u>2,188</u>	<u>2,087</u>
Change in net assets	<u>(42)</u>	<u>88</u>	<u>3</u>	<u>1</u>	<u>(39)</u>	<u>89</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,067,995 and expenses were \$2,110,421.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5				
Total and Net Cost of Governmental Activities				
(Expressed in Thousands)				
	Total Cost of Services		Net Cost of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	\$	\$	\$	\$
Instruction	1,309	1,302	1,011	949
Support Services	660	590	660	567
Non-instructional programs	13	8	13	8
Other expenses	<u>128</u>	<u>110</u>	<u>62</u>	<u>43</u>
Totals	<u>2,110</u>	<u>2,010</u>	<u>1,746</u>	<u>1,567</u>

- The cost financed by users of the District's programs was \$77,236.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$206,990.
- The net cost of governmental activities was financed with \$755,297 in property tax, \$730,747 in state foundation aid, and \$12,756 in interest income.

Business-Type Activities

Revenues of the District's business type activities were \$81,271 and expenses were \$78,194. The District's business type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Titonka Consolidated School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 585,321, a one percent increase over last year's ending fund balances of \$583,609. Depreciation expenses totaled over \$46,000. An increase in the Capital Projects Fund offset decreases in the General, Management and Activity Funds.

Governmental Fund Highlights

- The District's General Fund balance decreased due to a decrease in state revenues. Expenses increased less than 1% due to monitoring of discretionary spending.
- The District continues to collect the school Infrastructure Local Option Sales Tax. The money is being accumulated for future infrastructure projects.
- The Activity Fund decreased as a result of using funds raised over a period of years for a trip to Washington DC.

Proprietary Fund Highlights

The School Nutrition Fund balance increased due primarily to transfers from the General Fund.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were over \$88,000 less than budgeted receipts, a variance of 4%. The most significant variance resulted from the District receiving less in state funding than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$46,822.

The original cost of the District's capital assets was \$1,490,235. Governmental funds account for \$1,421,323, with the remainder of \$68,912 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	2	2	-	-	2	2	0.00%
Buildings	32	34	-	-	32	34	-5.88%
Construction in progress	11	16	-	-	11	16	100.00%
Furniture and equipment	111	151	1	1	112	152	-26.32%
Totals	156	203	1	1	157	204	-23.04%

Long-Term Debt

The District had no long-term debt at June 30, 2006.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment the past several years. This trend has caused the District to tap into existing reserves.
- The voters of the District approved a bond issue for the construction of a new middle school to replace the existing 1918 building.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Beth Wubben, District Secretary/Treasurer, Titonka Consolidated School District, 543 Dieckman St, PO Box 287, Titonka, IA 50480-0287.

Basic Financial Statements

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	566,188	118	566,306
Receivables:			
Property tax:			
Current year	15,990	-	15,990
Succeeding year	781,435	-	781,435
Income surtax	45,041	-	45,041
Receivables:			
Due from other governments	41,851	-	41,851
Other receivables	387	-	387
Inventories	-	3,055	3,055
Capital assets, net of accumulated depreciation (note 3)	156,002	1,358	157,360
Total assets	1,606,894	4,531	1,611,425
Liabilities			
Accounts payable	37,708	-	37,708
Deferred revenue:			
Succeeding year property tax	781,435	-	781,435
Total liabilities	819,143	-	819,143
Net Assets			
Invested in capital assets, net of related debt	156,002	1,358	157,360
Restricted for:			
Physical plant and equipment levy	201,683		201,683
Capital projects	233,250	-	233,250
Public education and recreation levy	183	-	183
Unrestricted	196,633	3,173	199,806
Total net assets	787,751	4,531	792,282

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:	1,309,201	77,236	221,103	(1,010,862)	-	(1,010,862)
Support services:						
Student services	33,714	-	-	(33,714)	-	(33,714)
Instructional staff services	70,122	-	-	(70,122)	-	(70,122)
Administration services	227,945	-	-	(227,945)	-	(227,945)
Operation and maintenance of plant services	264,006	-	-	(264,006)	-	(264,006)
Transportation services	84,413	-	-	(84,413)	-	(84,413)
	680,200	-	-	(680,200)	-	(680,200)
Non-instructional programs	13,175	-	-	(13,175)	-	(13,175)
Other expenditures:						
AEA flowthrough	66,244	-	66,244	-	-	-
Depreciation (unallocated)*	41,601	-	-	(41,601)	-	(41,601)
	107,845	-	66,244	(41,601)	-	(41,601)
Total governmental activities	2,110,421	77,236	287,347	(1,745,838)	-	(1,745,838)

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs	78,194	34,588	46,683	-	3,077
Total	2,188,615	111,824	334,030	(1,745,838)	3,077
General revenues:					
Property tax levied for:					
General purposes			650,249	-	650,249
Management Fund			40,082	-	40,082
Capital outlay			57,239	-	57,239
Public Education and Recreation Levy			7,727	-	7,727
Income surtax			52,402	-	52,402
School Infrastructure Local Option Sales Tax			126,406	-	126,406
Unrestricted state grants			730,747	-	730,747
Unrestricted investment earnings			12,756	-	12,756
Other			25,804	-	25,804
Total general revenue			1,703,412	-	1,703,412
Change in net assets			(42,426)	3,077	(39,349)
Net assets beginning of year			830,177	1,454	831,631
Net assets end of year			787,751	4,531	792,282

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	134,125	203,383	224,812	2,286	564,606
Receivables:					
Property tax:					
Current year	13,770	1,210	-	1,010	15,990
Succeeding year	647,705	60,579	-	73,151	781,435
Income surtax	45,041	-	-	-	45,041
Interfund receivable	22,023	-	-	-	22,023
Due from other governments	21,863	-	19,988	-	41,851
Other receivables	387	-	-	-	387
Total assets	884,914	265,172	244,800	76,447	1,471,333
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	22,181	2,910	11,550	872	37,513
Interfund payable	-	-	-	22,023	22,023
Deferred revenue:					
Succeeding year property tax	647,705	60,579	-	73,151	781,435
Succeeding year income surtax	45,041	-	-	-	45,041
Total liabilities	714,927	63,489	11,550	96,046	886,012
Fund balances:					
Reserved for:					
Capital projects	-	-	233,250	-	233,250
Unreserved	169,987	201,683	-	(19,599)	352,071
Total fund balances	169,987	201,683	233,250	(19,599)	585,321

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 585,321
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	45,041
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	156,002
An internal service fund is used by the District's management to charge the costs of the flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with the governmental activities.	<u>1,387</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 787,751</u></u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	702,651	57,239	126,406	47,809	934,105
Tuition	77,236	-	-	-	77,236
Other	38,560	-	-	77,848	116,408
State sources	838,503	-	-	-	838,503
Federal sources	99,234	-	-	-	99,234
Total revenues	<u>1,756,184</u>	<u>57,239</u>	<u>126,406</u>	<u>125,657</u>	<u>2,065,486</u>
Expenditures:					
Instruction	<u>1,208,686</u>	<u>-</u>	<u>-</u>	<u>100,515</u>	<u>1,309,201</u>
Support services:					
Student services	33,714	-	-	-	33,714
Instructional staff services	70,122	-	-	-	70,122
Administration services	217,954	-	-	9,991	227,945
Operation and maintenance of plant services	162,918	39,991	20,607	40,490	264,006
Transportation services	<u>79,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,367</u>
	<u>564,075</u>	<u>39,991</u>	<u>20,607</u>	<u>50,481</u>	<u>675,154</u>
Non-instructional programs	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>7,675</u>	<u>13,175</u>
Other expenditures:					
AEA flowthrough	<u>66,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,244</u>
	<u>66,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,244</u>
Total expenditures	<u>1,844,505</u>	<u>39,991</u>	<u>20,607</u>	<u>158,671</u>	<u>2,063,774</u>
Excess (Deficiency) of revenues over (under) expenditures	(88,321)	17,248	105,799	(33,014)	1,712
Fund balances beginning of year	<u>258,308</u>	<u>184,435</u>	<u>127,451</u>	<u>13,415</u>	<u>583,609</u>
Fund balances end of year	<u>169,987</u>	<u>201,683</u>	<u>233,250</u>	<u>(19,599)</u>	<u>585,321</u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E)	\$	1,712
Amounts reported for governmental activities in the statement of activities are different because:		
Income surtaxes not collected until more than 60 days after the District's fiscal year ends are not considered "available" in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		1,055
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue(expense) of the internal service fund is reported with governmental activities.		1,454
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$	-
Depreciation expense	<u>(46,647)</u>	(46,647)
Change in net assets of governmental activities (Exhibit B)	<u>\$</u>	<u>(42,426)</u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
	\$	\$
Assets		
Cash and pooled investments	118	1,582
Inventories	3,055	-
Capital assets, net of accumulated depreciation	1,358	-
Total assets	<u>4,531</u>	<u>1,582</u>
Liabilities		
Accounts payable	-	195
Net assets		
Invested in capital assets, net of related debt	1,358	-
Unrestricted	3,173	1,387
Total net assets	<u>4,531</u>	<u>1,387</u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
	\$	\$
Operating revenue:		
Local sources:		
Charges for services	<u>34,588</u>	<u>12,980</u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	31,082	-
Benefits	11,047	11,526
Services	363	-
Supplies	35,467	-
Depreciation	<u>235</u>	<u>-</u>
Total operating expenses	<u>78,194</u>	<u>11,526</u>
Operating income (loss)	<u>(43,606)</u>	<u>1,454</u>
Non-operating revenues:		
Local sources	8,017	-
State sources	911	-
Federal sources	<u>37,755</u>	<u>-</u>
	<u>46,683</u>	<u>-</u>
Change in net assets	3,077	1,454
Net assets beginning of year	<u>1,454</u>	<u>(67)</u>
Net assets end of year	<u><u>4,531</u></u>	<u><u>1,387</u></u>

See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of services	34,588	12,980
Cash payments to employees for services	(42,129)	(11,331)
Cash payments to suppliers for goods or services	(30,173)	-
Net cash provided by (used in) operating activities	(37,714)	1,649
Cash flows from non-capital financing activities:		
State grants received	911	-
Federal grants received	32,194	-
Net cash provided by non-capital financing activities	33,105	-
Cash flows from capital financing activities:		
Acquisition of fixed assets	(911)	-
Permanent transfer from General Fund	8,000	-
Acquisition of fixed assets	7,089	-
Cash flows from investing activities:		
Interest on investments	17	-
Net increase (decrease) in cash and cash equivalents	2,497	1,649
Cash and cash equivalents beginning of year	(2,379)	(67)
Cash and cash equivalents end of year	118	1,582
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	(43,606)	1,454
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:		
Depreciation	235	-
Commodities used	5,562	-
Decrease in inventory	182	-
Increase (decrease) in accounts payable	(87)	195
	(37,714)	1,649
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	118	1,582
Non-cash investing, capital and financing activities:		

During the year ended June 30, 2006, the District received federal commodities valued at \$5,562.
See notes to financial statements.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Titonka Consolidated School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District is involved in a two way sharing agreement with the Woden-Crystal Lake Community School District. The geographic area served includes the City of Titonka, Iowa, and agricultural area in Kossuth, Winnebago and Hancock Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Titonka Consolidated School District has included all funds, organizations, agencies, boards, commissions and authorities.

The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Titonka Consolidated School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Kossuth County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Capital Projects Fund is used to account for funds raised by the one cent School Infrastructure Local Option Sales Tax. These funds are being used for debt retirement and infrastructure expenses.

The District reports the following major proprietary funds:

The District's proprietary funds are the Internal Service and School Nutrition Fund. These funds are used to account for the food service operations of the District as well as the District's flex spending plan.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>2,210</u>	<u>-</u>	<u>-</u>	<u>2,210</u>
Capital assets being depreciated:				
Buildings	456,877	-	-	456,877
Improvements other than buildings	164,744	-	-	164,744
Furniture and Equipment	<u>797,492</u>	<u>-</u>	<u>-</u>	<u>797,492</u>
Total capital assets being depreciated	<u>1,419,113</u>	<u>-</u>	<u>-</u>	<u>1,419,113</u>
Less accumulated depreciation for:				
Buildings	423,047	2,283	-	425,330
Improvements other than buildings	149,444	4,667	-	154,111
Furniture and Equipment	<u>646,183</u>	<u>39,697</u>	<u>-</u>	<u>685,880</u>
Total accumulated depreciation	<u>1,218,674</u>	<u>46,647</u>	<u>-</u>	<u>1,265,321</u>
Total capital assets being depreciated, net	<u>200,439</u>	<u>(46,647)</u>	<u>-</u>	<u>153,792</u>
Governmental activities, capital assets, net	<u>202,649</u>	<u>(46,647)</u>	<u>-</u>	<u>156,002</u>
Business type activities:				
Furniture and equipment	68,002	910	-	68,912
Less accumulated depreciation	<u>67,319</u>	<u>235</u>	<u>-</u>	<u>67,554</u>
Business type activities capital assets, net	<u>683</u>	<u>675</u>	<u>-</u>	<u>1,358</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Transportation				5,046
Unallocated				<u>41,601</u>
				<u>46,647</u>
Business Type activities:				
Food service operations				<u>235</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$59,959, \$57,949, and \$55,939 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$66,244 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Titonka Consolidated School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds Management	\$22,023

The interfund loan receivable/payable was the result of a deficit Management Fund cash balance in a joint bank account.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
School Nutrition	General	<u>\$8,000</u>

(9) Commitments

The voters of the District approved a bond issue to be used for the demolition of part of the existing facility and construction of a new facility.

Required Supplementary Information

TITONKA CONSOLIDATED SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Types	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,127,749	42,605	1,170,354	1,141,816	1,141,816	28,538
State sources	838,503	911	839,414	936,753	936,753	(97,339)
Federal sources	99,234	37,755	136,989	157,000	157,000	(20,011)
Total revenues	<u>2,065,486</u>	<u>81,271</u>	<u>2,146,757</u>	<u>2,235,569</u>	<u>2,235,569</u>	<u>(88,812)</u>
Expenditures:						
Instruction	1,309,201	-	1,309,201	1,729,098	1,729,098	419,897
Support services	675,154	-	675,154	1,007,210	1,007,210	332,056
Non-instructional programs	13,175	78,194	91,369	93,811	93,811	2,442
Other expenditures	66,244	-	66,244	71,737	71,737	5,493
Total expenditures	<u>2,063,774</u>	<u>78,194</u>	<u>2,141,968</u>	<u>2,901,856</u>	<u>2,901,856</u>	<u>759,888</u>
Excess (deficiency) of revenues over (under) expenditures	1,712	3,077	4,789	(666,287)	(666,287)	671,076
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>(1,000)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,712	3,077	4,789	(665,287)	(665,287)	670,076
Balance beginning of year	<u>583,609</u>	<u>1,454</u>	<u>585,063</u>	<u>572,216</u>	<u>572,216</u>	<u>12,847</u>
Balance end of year	<u><u>585,321</u></u>	<u><u>4,531</u></u>	<u><u>589,852</u></u>	<u><u>(93,071)</u></u>	<u><u>(93,071)</u></u>	<u><u>682,923</u></u>

See accompanying independent auditor's report.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

TITONKA CONSOLIDATED SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Public Education and Recreation Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	-	2,266	20	2,286
Property tax receivable:				
Current year	847	-	163	1,010
Succeeding year	65,000	-	8,151	73,151
Total assets	<u>65,847</u>	<u>2,266</u>	<u>8,334</u>	<u>76,447</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	-	872	-	872
Interfund payable	22,023	-	-	22,023
Deferred revenue:				
Succeeding year property tax	65,000	-	8,151	73,151
	<u>87,023</u>	<u>872</u>	<u>8,151</u>	<u>96,046</u>
Fund balance:				
Unreserved fund balance	(21,176)	1,394	183	(19,599)
	<u>(21,176)</u>	<u>1,394</u>	<u>183</u>	<u>(19,599)</u>
Total liabilities and fund balance	<u>65,847</u>	<u>2,266</u>	<u>8,334</u>	<u>76,447</u>

See accompanying independent auditor's report.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Public Education and Recreation Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	40,082	-	7,727	47,809
Other	-	77,848	-	77,848
Total revenues	<u>40,082</u>	<u>77,848</u>	<u>7,727</u>	<u>125,657</u>
Expenditures:				
Instruction:				
Co-curricular instruction	-	100,515	-	100,515
Support services:				
Administration services	9,991	-	-	9,991
Plant operation and maintenance	40,490	-	-	40,490
Noninstructional programs	-	-	7,675	7,675
Total expenditures	<u>50,481</u>	<u>100,515</u>	<u>7,675</u>	<u>158,671</u>
Excess (Deficiency) of revenues over (under) expenditures	(10,399)	(22,667)	52	(33,014)
Fund balances beginning of year	<u>(10,777)</u>	<u>24,061</u>	<u>131</u>	<u>13,415</u>
Fund balances end of year	<u>(21,176)</u>	<u>1,394</u>	<u>183</u>	<u>(19,599)</u>

See accompanying independent auditor's report.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Elem/MS activities	80	-	-	80
Musical and play	112	-	-	112
Pride club	233	-	169	64
Jazz band	342	-	13	329
Co-ed athletics	515	12,609	13,149	(25)
Annual	309	3,018	3,615	(288)
Washington DC trip	20,558	60,897	81,359	96
Class of 2009	1,000	-	1,000	-
Class of 2010	287	188	166	309
Class of 2011	153	148	19	282
Class of 2012	-	69	-	69
National Honor Society	149	768	732	185
Interest	80	151	181	50
Student council	34	-	-	34
Cheerleading	209	-	112	97
Totals	<u>24,061</u>	<u>77,848</u>	<u>100,515</u>	<u>1,394</u>

See accompanying independent auditor's report.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

	Years ended June 30,			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	934,105	898,355	838,394	825,335
Tuition	77,236	86,438	86,531	121,660
Other	116,408	86,501	90,341	102,759
Intermediate sources	-	-	2,500	-
State sources	838,503	924,158	784,946	778,827
	<u>99,234</u>	<u>108,863</u>	<u>75,465</u>	<u>116,839</u>
	<u>2,065,486</u>	<u>2,104,315</u>	<u>1,878,177</u>	<u>1,945,420</u>
Expenditures:				
Instruction	1,309,201	1,281,916	1,255,007	1,173,824
Support services:				
Student services	33,714	16,655	15,145	14,962
Instructional staff services	70,122	66,735	61,316	68,521
Administration services	227,945	227,334	246,392	238,337
Operation and maintenance of plant services	264,006	210,603	184,663	173,599
Transportation services	79,367	66,937	75,820	73,739
Noninstructional programs	13,175	7,731	9,233	9,183
Other expenditures:				
Facilities acquisition	-	42,954	-	-
AEA flowthrough	<u>66,244</u>	<u>66,884</u>	<u>65,032</u>	<u>66,047</u>
	<u>2,063,774</u>	<u>1,987,749</u>	<u>1,912,608</u>	<u>1,818,212</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Education of the
Titonka Consolidated School District:

Compliance

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Titonka Consolidated School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon date August 16, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Titonka Consolidated School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether, Titonka Consolidated School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Titonka Consolidated School District and other parties to whom Titonka Consolidated School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Titonka Consolidated School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 16, 2006

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-I-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize that with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B Certified Budget - Disbursements for the year ended June 30, 2006, did not exceed the certified budget amounts in any of the four functions.

06-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

TITONKA CONSOLIDATED SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G Board Minutes - We noted no items requiring Board approval which had not been approved by the Board.
- 06-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 06-II-J Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- 06-II-K Deficit Balance - The District has a deficit fund balance in the Management Fund of \$21,176 at June 30, 2006.
- Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.
- Response - The deficit will be covered by property tax revenues during the next year.
- Conclusion - Response accepted.